

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY ROME IMMEDIATE

C O N F I D E N T I A L STATE 150802

EXDIS

E.O. 11652: GDS

SUBJECT: SECRETARY SIMON'S TALKING POINTS

AS EMBASSY IS AWARE, SECRETARY OF TREASURY SIMON PLANS TO STOP IN GERMANY, FRANCE AND U.K. ENROUTE WASHINGTON FROM MIDDLE EAST DURING WEEK OF JULY 22. THESE STOPS WILL ENABLE HIM TO CONFER WITH TOP LEVEL OFFICIALS ON WIDE RANGE OF TOPICS. ITALIAN PROBLEM IS EXPECTED TO BE DISCUSSED AT ALL THREE STOPS. BEARING IN MIND CONVERSATIONS WHICH SECRETARY KISSINGER HAS HAD IN ROME, SECRETARY SIMON IS EXPECTED TO URGE GERMAN GOVERNMENT BOTH TO BE PREPARED TO RESPOND PROMPTLY TO ANY ITALIAN REQUEST FOR FINANCIAL SUPPORT AND TO PLAY A LEADERSHIP ROLE IN ARRANGING ANY COORDINATED INTERNATIONAL APPROACH TO FINANCIAL SUPPORT FOR ITALY.

FOLLOWING IS FULL TEXT OF DRAFT "TALKING POINTS" PREPARED FOR SECRETARY'S POSSIBLE USE IN CONVERSATIONS WITH GERMAN OFFICIALS AND, SUITABLY ADAPTED, FOR CONVERSATIONS WITH FRENCH AND BRITISH OFFICIALS AND PERHAPS SECRETARY GENERAL OF OECD. EMBASSY COMMENTS WOULD BE WELCOME. DRAFT HAS NOT REPEAT NOT BEEN REVIEWED BY SECRETARY SIMON OR UNDER SECRETARY BENNETT. CONFIDENTIAL

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BEGIN TEXT:

1. I AM ENCOURAGED BY THE RECENT DEVELOPMENTS IN ITALY. THE DOMESTIC RESTRAINT PROGRAM PUT TOGETHER BY THE GOVERNMENT REPRESENTS A COURAGEOUS EFFORT. IT SHOULD SUBSTANTIALLY CHECK IMPORTS, FREE SOME RESOURCES FOR EXPORT AND POSSIBLY SUCCEED IN RESTORING CONFIDENCE. WHILE SOMETHING EVEN STRONGER MAY HAVE BEEN DESIRABLE, THIS PROGRAM IS PROBABLY THE MAXIMUM POLITICALLY OBTAINABLE.

2. EVEN IF THE PROGRAM DOES THE JOB IN THE LONG RUN THERE WILL BE SOME MONTHS BEFORE IT CAN HAVE MUCH IMPACT ON TRADE. WHEN THE PROGRAM IS IN PLACE, IT SEEMS LIKELY THAT THE ITALIAN GOVERNMENT WILL APPROACH ITS TRADING PARTNERS FOR MEDIUM-TERM FINANCIAL SUPPORT. WE CANNOT RISK A BASIC SHIFT IN THE POLITICAL STRUCTURE OF ITALY. IF THE ITALIANS CAN PUT THE PROPOSED PACKAGE INTO EFFECT, ITALY'S TRADING PARTNERS SHOULD RESPOND SYMPATHETICALLY TO SUCH A REQUEST.

3. THE RESPONSE TO SUCH A REQUEST SHOULD BE PROMPT. CONSEQUENTLY IT MAY BE THAT THERE SHOULD BE SOME VERY QUIET ADVANCE DISCUSSION OF CONDITIONS AND POSSIBLE COMPONENTS. IT WOULD BE HELPFUL IF THE FEDERAL REPUBLIC COULD TAKE THE INITIATIVE IN ORGANIZING ANY ADVANCE DISCUSSION AND IN DEVELOPING THE INTERNATIONAL RESPONSE TO AN ITALIAN REQUEST. IF THE ITALIANS SHOULD APPROACH THE U.S. WE WOULD LIKE TO BE ABLE TO REFER THEM TO THE FEDERAL REPUBLIC.

4. CLEARLY INTERNATIONAL SUPPORT SHOULD BE CONDITIONED ON THE ADOPTION AND MAINTENANCE OF APPROPRIATE POLICIES IN ITALY. WHILE THE PRESENT PACKAGE MIGHT MERIT COMMITMENTS, IT MAY BE APPROPRIATE TO PHASE DISBURSEMENTS IN SUCH A WAY AS TO PROVIDE AN INCENTIVE FOR THE ITALIANS TO MAINTAIN THEIR PROGRAM OR INTENSIFY IT IF NECESSARY. PERHAPS THE NEW INTERIM GOVERNORS COMMITTEE BEING SET UP IN THE IMF COULD REVIEW THE ITALIAN SITUATION QUARTERLY AND DRAWDOWNS BE MADE CONTINGENT ON SATISFACTION WITH THE RESULTS OF THIS REVIEW.

5. THE FULL AMOUNT OF ANY SUPPORT PACKAGE PROBABLY SHOULD, HOWEVER, BE ANNOUNCED AT THE OUTSET TO DRAMATIZE ITS MAGNITUDE AND OBTAIN MAXIMUM EFFECT ON CONFIDENCE. AT THE SAME
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TIME IT SHOULD BE MADE CLEAR TO THE ITALIAN AUTHORITIES THAT THIS PACKAGE REPRESENTS THE MAXIMUM INTERNATIONAL SUPPORT WHICH THEY CAN EXPECT.

6. WE WOULD THINK IT MIGHT ALSO BE MADE CLEAR TO THE ITALIANS THAT THEIR TRADING PARTNERS SHOULD NOT RESIST SOME DOWNWARD MOVEMENT OF THE EXCHANGE RATE IF THAT APPEARED NECESSARY IN ORDER TO BRING THE DEFICIT WITHIN THE LIMITS

OF THE RESOURCES MADE AVAILABLE.

7. THE U.S. WOULD BE PREPARED TO PARTICIPATE IN AN INTERNATIONAL PACKAGE WITH SUITABLE CONDITIONS ALTHOUGH THE SCOPE FOR OUR PARTICIPATION IS VERY LIMITED BECAUSE OF THE LACK OF LEGISLATIVE AUTHORITY. PERHAPS THE U.S. SHARE IN ANY ADDITIONAL FINANCIAL SUPPORT PROVIDED BY GOVERNMENTS BE ROUGHLY IN LINE WITH ITS SHARE IN ITALY'S IMPORTS.

8. WE WOULD ALSO THINK THAT THE ITALIANS SHOULD BE EXPECTED TO APPROACH AT LEAST SOME OF THE MAJOR OIL PRODUCING COUNTRIES FOR SOME TYPE OF FINANCIAL SUPPORT. A QUARTER OF THE PACKAGE MIGHT COME FROM THESE COUNTRIES.

9. WE WOULD PREFER THAT CREDITS BE EXTENDED WITHOUT THE USE OF GOLD COLLATERAL. IN OUR VIEW PRESSURE ON THE ITALIANS SHOULD BE PROVIDED BY THE INTERIM COMMITTEE REVIEW AND BY THE EXPLICIT LIMITATION ON THE AMOUNT OF INTERNATIONAL SUPPORT RATHER THAN BY THE USE OF GOLD GUARANTEES.

10. IF YOU ARE PREPARED TO TAKE THE INITIATIVE ON THIS MATTER AND ARE INTERESTED IN FURTHER DISCUSSIONS, WE WILL MAKE APPROPRIATE SENIOR OFFICIALS AVAILABLE.
END TEXT. KISSINGER

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